



June 20, 2005

To the Mayor and Members of the Durham City Council:

I am pleased to present the Final Budget for FY 2005-06. As directed by Council, this budget is balanced without a property tax increase and only minor adjustments to other fees.

While this is my first budget as your City Manager, the budget development process has been invaluable to my understanding and comprehensively addressing the City's needs. Several factors, past and current, affect our budget. For example, we are still very much in the throes of recovering from the state's decision to withhold local tax dollars to address its own budget crunch. Also, over the past few years, we have continuously deferred spending in key areas to provide short-term budgetary relief.

Currently, we are feeling the effects of a sluggish economy, which has contributed to a considerable decrease in our revenues. At the same time, service demands from a growing population and the simple cost of doing the public's business are rising. While we desire to meet the majority of our citizens' needs, as we've heard them at the various community meetings over the past few months, the reality is that we must strike a balance with budget decisions that will lead to measurable and sustainable results. We must, as a city, prioritize and target our efforts on services and projects that we can manage to achieve desired outcomes.

How do we do that? Throughout this budget, you'll see that we're encouraging a more holistic approach, involving not only city employees, but also businesses and citizens, to meet our goals of achieving a safe city, proactive economic development that reaches into neighborhoods while providing our basic services. At the foundation of this approach is being able to hire and retain a highly qualified workforce and ensuring that our public facilities are well maintained. Our long-term success will be measured over time. To keep citizens informed, the City, along with Durham County government, will publish a progress report this fall and a Community Report Card early next year about our efforts to make positive and sustainable change.

This year's budget represents the crucial next step along a path to correct structural deficiencies in the budget that have developed over several years.

OVERALL BUDGET OUTLOOK

Continuing to provide basic services as well as hiring and retaining exceptional employees throughout the organization are our highest priorities. To do so, the City's budget for FY 2005-06 is \$295.9 million, which is \$14.4 million (5%) higher than the adopted FY 2004-05 budget. This total includes:

- A general fund budget of \$175.9 million, which adequately funds core city services,
- A 4 percent projected overall increase in property tax revenue due to growth from FY 2004-05; and a 4.5 percent growth in sales tax,
- No increase in our property tax rate, maintaining it at 0.583 cents per \$100 valuation,
- A 12 percent fund balance in the general fund, and
- Minor increases in other fees and charges.

Highlights of the FY 2005-06 Budget Include:

PROMOTING PUBLIC SAFETY

Feeling safe and lowering the crime rate are the two most important issues continuously raised by both the Council and Durham residents. Our priority continues to be ensuring that the Police Department, Fire Department and Emergency Communications Center (9-1-1) are staffed and equipped to protect our citizens. At the same time, we are supporting other efforts, such as Code Enforcement and Nuisance Abatement Teams, Citizens Patrols and additional youth programs to enhance the safety of our community.

More police officers and firefighters on the street. A budget increase of \$1.3 million will allow the public safety departments to recruit and retain an experienced work force.

- While we recognize the need for additional officers, my first priority has been to bring the police force to its authorized strength. I am pleased to report there is currently a 2% vacancy rate in the Police Department, down from 5% a year ago. Through a number of strategies, the number of sworn officers has increased by 17 since this time last year.
 - Eighteen new police officers are funded to bring the total number of sworn officers to 500 by the end of the fiscal year.
 - Four police academies are funded to train new officers, and funds are allocated to hire recruits up to two months prior to an academy to ensure that potential officers are not lost to other employers. Two of the academies will be for experienced officers who are transferring from other jurisdictions.
 - We will continue the police pay plan that began last fiscal year. This new pay plan, which provides annual increases and educational incentives, has resulted in reduced turnover and higher morale.

- The budget includes fifteen new firefighter positions for the staffing of Fire Station 16. The trainees will be hired this winter in preparation for the opening of the new station in June 2006. In addition, one fire academy is funded to hire twelve trainees to fill vacancies.
- A new fire pay plan has been created to provide adequate wages to our public safety personnel.
- Emergency Communications (9-1-1) will add four new telecommunicators and upgrade seven call taker positions to telecommunicators to improve the productivity of radio operations and to expand staff proficiencies and responsibilities.
- A new fee structure for police and fire response to false alarms will become effective January 1, 2006. Over 6% -- the equivalent of 29 officers -- of all police dispatches are to false alarms, costing the City nearly \$2.5 million. As 98% of the alarms are false, the goal of the new fee structure is to encourage alarm owners to learn to use their alarms appropriately so that Police and Fire are only dispatched for real emergencies.

New technology, facilities and equipment. Our public safety departments rely heavily on their equipment and technology. To make them more efficient at their work, we are:

- Opening two new Fire Stations (8 and 16) this fiscal year, decreasing the response time in the southeastern and southwestern parts of the City.
- Replacing one pumper truck.
- Renovating a building across from Central Park to open a new downtown police substation.
- Implementing the 9-1-1 Center's CAD/GIS system upgrade, which allows 9-1-1 telecommunicators to locate emergency response vehicles and more efficiently dispatch police and fire personnel.
- Streamlining our procurement process for police vehicles, which allows us to defer the purchase of police vehicles this year but maintain the quality of our public safety fleet.

Housing Code Enforcement. The perception of safety in a neighborhood is often tied to its appearance. To clean up our neighborhoods and enforce housing code violations, we will aggressively continue the Code Enforcement Nuisance Abatement Teams initiative and implement new technology to improve efficiency. We also will continue our landlord training workshops, encouraging them to maintain their property and support the safety of the neighborhood.

Youth Programs. The City has strengthened its programs for youth to provide them with positive activities:

- Hours at three neighborhood centers have been expanded, programs for after school and summer camp have been reestablished at three Housing Authority sites, and summer camp has been extended for an additional two weeks in order to coincide with the Durham Public Schools traditional school calendar changes.

- We will hold quarterly Youth Explosion events, highlighting various neighborhoods and building on the two successful Youth Explosions we held this past year.
- Thirty youth have been appointed to the City of Durham Youth Council which will advise the City Council on matters of interest to young people.
- We have established a joint-use agreement with the schools to share facilities and increase recreational programming for youth.
- We continue to provide jobs for at-risk youth in city government and at private businesses.
- The City Council continues to support City and Non-City Agencies that provide activities and services contacting 256,000 youth with a value exceeding \$4 million.
- The addition of two full-time and additional part-time funding for parks personnel will allow for expanded youth athletics and educational opportunities at community and recreation centers.

ECONOMIC DEVELOPMENT AND NEIGHBORHOOD ISSUES

Attracting businesses to locate in Durham and addressing neighborhood issues, go hand in hand. The impact of improvements downtown should reach into our communities at every level. That is why we continue to improve our neighborhoods and attract people downtown.

Improving City Development Review and Oversight. New positions have been added to address increasing development needs:

- Planning Department: One new site plan inspector paid for with development fees, which will be updated to reflect our cost-recovery philosophy. Two graduate student interns are also funded.
- Public Works Department: Three new staff positions in the Engineering Division, whose salaries will be partially offset with new Utility Service Area Planning Review fees.

In addition, the Development Tracking System (“one stop shop”) will be activated this fall to make it easier for developers, citizens and building contractors to track the status of their projects.

Targeting our Distressed Neighborhoods. We are continuing to take a holistic approach toward assisting Durham’s more distressed neighborhoods by:

- Assigning a new position in the Housing Department to focus on neighborhood planning and coordinating the implementation of the Northeast Central Durham strategic plan.
- Allocating \$193,200 to demolish unsafe houses, clean-up weedy lots, and remove abandoned vehicles.
- Allocating new CDBG funds to assist homeless persons.
- Strengthening collaboration with lenders and property owners to maintain property, thereby maximizing private investment and minimizing use of public dollars. We will facilitate commercial development in key

corridors for both individual business owners and large scale commercial ventures.

Enhancing vibrancy and economic growth in the downtown. Several major efforts continue to revitalize downtown. The Downtown Streetscape Project, realigning several streets, is well under way. Construction of the American Theater for the Performing Arts should begin in 2006. Large public-private partnerships including the American Tobacco and Liggett renovations are catalysts for downtown development. A feasibility study to evaluate the need to expand the Civic Center will be completed in summer 2005.

The downtown revitalization fund will receive 0.90 cents of the property tax rate, plus the incremental growth in taxes related to the American Tobacco project. Additional allocation to the downtown fund and the creation of a similar fund for our neighborhoods are priorities for future budget years.

CAPITAL IMPROVEMENTS AND DEFERRED MAINTENANCE

For several years maintenance and capital improvements on buildings and other City-owned property has been deferred. As a result, much of our infrastructure is in deteriorating condition. From potholes and leaky roofs to inaccessible facilities for the disabled, Durham has its share of deferred maintenance issues.

A comprehensive study of city property conducted in FY 2003-04 identified \$44 million in hard costs to address the maintenance of our property. An assessment of our street conditions indicates at our current rate of funding, it would take us more than 75 years to resurface all city streets, which typically have a useful life of 20 years. The current street maintenance backlog exceeds \$10 million. At our current rate of funding, the water distribution system will be replaced in 1,396 years and the sewer collection system will be replaced in 252 years. We simply can not go another year without addressing these needs.

To help prioritize and advise the City on critical Capital Improvement Program (CIP) projects and a possible bond referendum, a Citizen's Capital Improvement Panel of 28 community leaders was convened. The committee unanimously agreed that the City should move forward with a bond referendum to fund capital projects and that the panel meet regularly to assist the City with oversight regarding capital projects.

This year the City is proposing a \$110 million bond referendum. Twenty million will be for water and sewer projects. The debt for those projects will be paid back from the Water and Sewer Fund. Almost three fourths of the recommended bond package will be dedicated to building a well-maintained infrastructure and correcting deferred maintenance through capital upgrades (74%). The remainder of the bond package will provide much needed parks and recreation projects (15%) enhance economic activity (6%) and address public safety needs (5%). The list of

proposed projects is more fully detailed in the capital improvement plan for FY 2006-2011.

Excluding the bond referendum, this budget includes \$10 million in projects funded with 2/3 bonds which are a restricted type of general obligation bond. These projects have been selected because project plans have been finalized and the projects are ready to begin or can be completed within a year. The projects are:

- \$2,100,000 for Road Resurfacing
- \$2,600,000 for Old Chapel Hill Road Park Construction
- \$4,000,000 for the Liggett Streetscape Project
- \$ 300,000 for the City Hall Annex/Planning Building
- \$1,000,000 to complete the City Hall Renovations Project

With the use of impact fees, grants and occupancy tax funds, this budget includes funds for \$71.7 million in projects, two capital project managers and an American with Disabilities Act project manager to complete projects in a timely manner.

To address the six-year planning horizon for the City's capital projects, nearly \$663 million is needed. It is clear that to fund needed capital projects and to begin to address the City's infrastructure needs, it is necessary for Durham residents to consider a General Obligation Bond referendum in 2005. Bond funding will allow the City to tackle important projects such as capital upgrades for infrastructure and public buildings, street improvements including the realignment and paving of gravel roads, and much-needed improvements at some of the City's parks.

CITY WORKFORCE

Attracting and retaining a competent, high quality workforce is essential as employees are at the very core of every service we deliver for the community. Over the last few years, employee raises have been minimal as employee compensation has not been a high priority in the budget process. The City's workforce consists of dedicated hard-working employees who work diligently to make Durham a better place and they need to be compensated appropriately. This budget recommends long-awaited improvements to our pay structure to remain competitive in the market.

- The Pay for Performance plan has been implemented throughout the City and the first pay increases tied to the new system will be granted effective January 1, 2006. Under this plan, exceptional employees will receive up to a 6% pay increase. Poor performers may receive no increase (and supervisors will work with the employees to either improve or leave the organization). On average, employees will see a 3.7% raise.
- A new fire pay plan will go into effect to provide set percentage increases to all firefighters. In addition, there will be incentives phased-in for attaining additional levels of education, training or foreign language skills.
- The police pay plan will be maintained to ensure we are able to retain our qualified work force.

- The Human Resources department has surveyed other municipalities to compare pay scales. As a result of the survey, we are adjusting pay bands for 60 classifications to remain competitive; while most will be increased, a few will be decreased. We have also set aside funding for minor market-based adjustments that will need to occur throughout the year.
- The Durham Minimum Livable Wage will remain at \$9.51 per hour. We have committed to review the appropriate wage rate every two years.
- There are no changes to the longevity program, employee 401(k) and retirement benefits.
- We have budgeted for our employer-paid health insurance benefits to increase 11.5% effective September 2005 and the employee share will increase proportionately. As we have matched the timing of the health plan negotiations with the presentation of the budget, we know this is enough funding to maintain the current level of health, dental and mental health benefits.
- A variety of wellness programs are being created to help improve the health of our workforce and positively impact our health care costs.
- We have assumed there will be turnover in our larger departments and have reduced their salary budgets to reflect the actual needs for a total savings of almost \$1,800,000.

To meet our goals of maintaining basic services and improving our safety, capacity and accountability, it is necessary to increase our work force by 74 full-time positions with additional firefighters, parks and recreation, development review, project management, traffic signal, and financial staff.

TAKING CARE OF OUR CITY

How our city appears is a key indicator of our quality of life to residents, visitors and developers. We all want our city to look like a place where people desire to live, work and play. How well we provide our most basic services such as garbage collection, the water and sewer system, transit and the appearance of our parks reflects the pride we have in ourselves and our community.

Solid Waste, Yard Waste and Bulky-Item Programs. Our current solid waste collection, yard waste, and neighborhood clean-up programs, including Spring Clean and the two Impact Teams, will be maintained. Continued enhancements to programs, such as the single-day pick up for waste and expansion of the yard waste collection will be top priorities. A pilot program of free pick-up of bulky items to customers who schedule the removal in advance will begin. We have begun to purchase additional equipment and are exploring funding options to position us to expand the yard waste program to all residents in FY 2006-07. We will also maintain a small reserve to clean up debris in the event of major storms.

Enhancing the City's Appearance. The direct oversight of city parks, maintenance services, including management of athletic field maintenance, park cleanup and custodial services will be transferred to Durham Parks and Recreation

from General Services. We will continue to sponsor the Keep Durham Beautiful Campaign and maintain our successful tree planting program in partnership with our neighborhoods. The Planning Department will initiate development of the Gateways Plans and Neighborhood Protection Overlays. Three additional park maintenance and custodial staff positions were added to supplement the transfer of seventeen General Service maintenance and custodial personnel who maintain ball fields and recreational buildings.

Improving drainage and water quality. The new storm water fees adopted last year have resulted in the substantial completion of all existing high priority private property projects by the fall of 2005. New projects identified this year will be added to the priority two projects now scheduled for completion during FY 2005-06. An allocation of \$1,225,000 has been made to continue addressing private property storm water projects along with \$450,000 in watershed planning and design projects which protect and enhance water quality and property protection.

Water and Sewer System. The City of Durham has more than 80,000 water and sewer customers. The fees and charges for water and sewer use pay for the costs to provide this service. Over the past two fiscal years, significant rate increases were imposed to cover the cost to provide this service. A modest 2.46% increase this year will cover increased costs in the operation of the system. Like most municipal water and sewer providers, Durham uses only those charges and fees generated from water and sewer customers to pay for these services. The water and sewer fund is operated as a self sufficient stand-alone business and receives no tax revenues. Revenue bonds issued by the City to fund Water and Sewer capital improvements also contain covenants to protect bond holders which require current fees to cover current expenses and debt service.

The average residential bi-monthly billing will increase approximately \$1.90 (\$11.40 annually). The proposed monthly rate increase is shown in the table below:

Rate Component	Current Charge	Proposed Charge
Water Service Charge	\$2.44	\$2.58
Sewer Service Charge	\$3.10	\$3.19
Water Consumption (CCF)	\$1.38	\$1.38
Sewer Consumption (CCF)	\$2.76	\$2.85

Current and proposed rates are double for those customers located outside the City limits.

Durham Area Transit Authority. In January 2005, DATA services were extended to several elementary and middle schools and services to senior citizens are now provided free of charge. The proposed budget maintains current service levels and fares by using the remaining balance of the Transit Trust Fund, thus exhausting the fund. In the mid-1990s, the City Council set aside 4 cents of the property tax rate each year for DATA. It is currently down to 2.5 cents in the adopted budget and will need to be increased in the future to maintain DATA services.

MAINTAINING GOOD GOVERNMENT

The City is proud to maintain its AAA bond rating, the highest measure of financial security. Last year, the independent auditors of the City issued an unqualified opinion with no audit findings. The Audit Services Department ensures compliance with applicable laws, policies and procedures. In addition to conducting audits based on risk, the department operates a “fraud, waste and abuse” hotline.

Organizational Efficiencies. To reduce operating costs and improve services to the public, several enhancements to the structure of city government will be continued in the upcoming fiscal year.

- Durham One Call has received over 200,000 calls and provides a single phone number (560-1200) for residents to call for all questions about city government and services.
- The Managed Competition Citizen Advisory Board will continue to identify efficiencies that will enable the City to do more with less. The committee is focusing on the City’s pothole repair program to improve the condition of our streets. An employee Managed Competition committee has also studied operational efficiencies that could occur if technology services were consolidated.
- The Human Resources Department began restructuring last year to meet the goals of recruiting and retaining a well qualified work force.
- Durham *First* is the City’s initiative to reshape the government into a high performing organization by identifying ways to improve operations, policies and procedures through employee task teams. Under this program, which has been moved to the City Manager’s Office, a number of development programs have begun to prepare our next generation of organizational leaders.
- The Parks & Recreation Department will be hiring instructors to work at its facilities for computer lab instruction, aquatic programs and aerobics in lieu of contracting with independent service providers. This allows for more comprehensive services without an increase in cost.
- An energy manager will be hired to implement environmentally sound measures throughout city government facilities that reduce our expenses.
- A fleet allocation study will be completed this year and we expect to achieve savings in future budgets based on the recommendations of the study.
- The first phase of our Enterprise Resource Planning system will be implemented to upgrade our 30-year old financial, human resource and billing systems.
- The budget proposes to fund 45 non-profit agencies to provide arts, public safety, youth programs, community development and other activities for Durham citizens at a total of \$2.29 million.

In closing, I am confident that this budget addresses many of the City’s most pressing needs. I am proud of the work we have accomplished and look forward to continuing on our path of correction to meet our goals of achieving a safe city and

proactive economic development that reaches into neighborhoods while providing basic services. I also want to thank all city employees, particularly the Budget and Management Services staff for their dedication in preparing this budget.

Respectfully Submitted,

Patrick W. Baker
City Manager